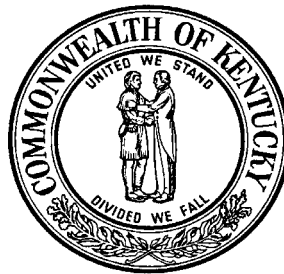


**REPORT OF THE SINGLE AUDIT OF
LOUISVILLE/JEFFERSON COUNTY
METRO GOVERNMENT**

**For the Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

SINGLE AUDIT REPORT UNDER CIRCULAR A-133 **LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT**

For The Fiscal Year Ended
June 30, 2003

The Auditor of Public Accounts has completed the Louisville/Jefferson County Metro Government (Metro) A-133 audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the Schedule of Expenditures of Federal Awards. Based upon the audit work performed, the SEFA is presented fairly in all material respects in relation to the basic financial statements taken as a whole. The Single Audit Report is presented in two volumes: The Comprehensive Annual Financial Report (CAFR) and this A-133 report. The CAFR contains basic financial statements and has been issued under separate cover.

EXPENDITURES: Metro organizations expended federal awards as follows:

- \$89,837,006 in cash from 15 federal grantors

SUMMARY OF AUDITOR'S RESULTS:

Financial Statement Accounts

Fifteen (15) financial statement findings, three (3) of which are material.

Federal Awards and Schedule of Expenditures of Federal Awards

Two (2) federal award findings, none of which are material.

DESCRIPTIONS OF MATERIAL WEAKNESSES:

- Metro needs to implement strong management and internal controls over financial reporting process.
- Internal controls over reporting capital assets should be developed and implemented.
- Immediate implementation of control procedures over cash management functions is needed, including the timely completion of bank reconciliations.

GENERAL TOPICS OF REPORTABLE CONDITIONS:

- Adequate supporting documentation and records retention policies
- Password security in cashier system
- Internal investment pool participation
- Segregation of duties
- Proper utilization and reconciliation of payroll system
- Questionable federal expenditures
- Identifying fixed assets purchased with federal funds
- Mainframe, network level, and application security procedures

CONTENTS

Page

INTRODUCTION	1
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	7
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	11
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	17
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	27
SUMMARY OF PRIOR AUDIT FINDINGS	69
APPENDIX	73

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2003**

Single Audit Report

The Auditor of Public Accounts (APA) has performed the Single Audit of major federal programs for the year ended June 30, 2003.

The APA prepares the Single Audit Report in compliance with Government Auditing Standards, Generally Accepted Government Auditing Standards of the United States of America, and the requirements of Office of Management and Budget (OMB) Circular A-133. Metro assembled the reporting package as required by OMB Circular A-133. The reporting package includes the basic financial statements, Schedule of Expenditures of Federal Awards (SEFA), auditor's reports, Summary Schedule of Prior Audit Findings, and corrective action plans. For the fiscal year ended June 30, 2003 (FY 03), the Single Audit Report is presented in two volumes: the Comprehensive Annual Financial Report (CAFR) and the Single Audit Report.

The CAFR, which contains the basic financial statements and the auditor's report thereon, has been issued under separate cover.

The Single Audit Report, the second volume, contains the auditor's report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards, the auditor's report on compliance and internal control over compliance with requirements applicable to each major federal program in accordance with OMB Circular A-133, and the opinion on the Schedule of Expenditures of Federal Awards. The Single Audit Report also contains the SEFA, Schedule of Findings and Questioned Costs, and the Summary Schedule of Prior Audit Findings.

Schedule of Expenditures of Federal Awards

The SEFA is organized by federal grantor. The Catalog of Federal Domestic Assistance (CFDA) numbers and program names are listed under the federal grantor administering the program. The notes to the SEFA provide more detailed information on certain aspects of the expenditures.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consist of three (3) sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the type of audit opinion issued and lists major programs audited. The Financial Statement Findings list the audit findings related to the financial statements. The Federal Award Findings and Questioned Costs lists all findings related to federal awards. In both sections, material weaknesses and material instances of noncompliance reportable are presented first, then reportable conditions and reportable instances of noncompliance.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for FY 02, as well as any previous findings that have not been resolved, are reported in the Summary Schedule of Prior Audit Findings for FY 03.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable or material. The findings of each classification (reportable and material) are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

List Of Abbreviations/Acronyms Used In This Report

ADP	Automatic Data Processing
AIDS	Acquired Immunodeficiency Syndrome
ADR	Asset Data Record
APA	Auditor of Public Accounts
CAFR	Comprehensive Annual Financial Report
CDBG	Community Development Block Grant
CFDA	Catalog of Federal Domestic Assistance
CFO	Chief Financial Officer
CLPPP	Childhood Lead Poisoning Prevention Program
CPA	Certified Public Accountant
DBS	Database Solutions (Geac Computer Corporation Limited)
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
EDP	Electronic Data Processing
FAP	Federal Assistance Program
FAS	Financial Accounting System
FY	Fiscal Year
GAAP	Generally Accepted Accounting Standards
GASB	Governmental Accounting Standards Board
HIV	Human Immunodeficiency Virus
ID	Identification
INC	Incorporated
IT	Information Technology
JCL	Job Control Language
KRS	Kentucky Revised Statute
KY	Kentucky
LAN	Local Area Network

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report (Continued)

Metro	Louisville/Jefferson County Metro Government
OMB	Office of Management and Budget
OIA	Office of Internal Audit
SEFA	Schedule of Expenditures of Federal Awards
SOF	Statement of Facts
U.S.	United States
WIA	Workforce Investment Act

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

To Jerry E. Abramson, Mayor
Louisville/Jefferson County Metro Council

We have audited the basic financial statements of the Louisville/Jefferson County Metro Government as of and for the year ended June 30, 2003, and have issued our report thereon dated March 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Several agencies were tested for compliance and internal control requirements in accordance with *Government Auditing Standards* by other auditors, whose reports thereon have been furnished to us.

Compliance

As part of obtaining reasonable assurance about whether Louisville/Jefferson County Metro Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 03-Metro-14. We also noted certain immaterial instances of noncompliance, which we have reported to management.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisville/Jefferson County Metro Government's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Louisville/Jefferson County Metro Government's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-Metro-1, 03-Metro-2, 03-Metro-3, 03-Metro-4, 03-Metro-5, 03-Metro-6, 03-Metro-7, 03-Metro-8, 03-Metro-9, 03-Metro-10, 03-Metro-11, 03-Metro-12, 03-Metro-13, 03-Metro-15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-Metro-1, 03-Metro-2, and 03-Metro-3 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

March 29, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133
And On The Schedule Of Expenditures Of Federal Awards

To Jerry E. Abramson, Mayor
Louisville/Jefferson County Metro Council

Compliance

We have audited the compliance of Louisville/Jefferson County Metro Government with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Louisville/Jefferson County Metro Government's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Louisville/Jefferson County Metro Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Louisville/Jefferson County Metro Government's compliance with those requirements.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
And On The Schedule Of Expenditures Of Federal Awards
(Continued)

In our opinion, based on our audit, Louisville/Jefferson County Metro Government complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Louisville/Jefferson County Metro Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Louisville/Jefferson County Metro Government's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Louisville/Jefferson County Metro Government's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-Metro-16 and 03-Metro-17.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving internal control over compliance which we have communicated to management.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Louisville/Jefferson County Metro Government as of and for the year ended June 30, 2003, and have issued our report thereon dated March 29, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to Louisville/Jefferson County Metro Government's basic financial statements taken as a whole.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 29, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

CFDA # Program Title	Expenditures	Provided to Subrecipients
<u>U.S. Department of Agriculture</u>		
Pass Through KY Department of Education:		
10.555 National School Lunch Program	\$ 84,222	\$
Pass Through KY Department of Public Health:		
10.557 Special Supplemental Nutrition Program for Women, Infants, and Children	1,621,789	
Pass Through KY Cabinet for Families and Children:		
10.559 Summer Food Service Program for Children	371,865	
Pass Through Kentuckiana Regional Planning and Development Agency:		
10.570 Nutrition Services Incentive	212,771	
Total U.S. Department of Agriculture	\$ 2,290,647	\$
<u>U.S. Economic Development Administration</u>		
Direct Program:		
11.307 Economic Adjustment Assistance	\$ 190,000	\$
<u>U.S. Department of Defense Office of Economic Adjustment</u>		
Direct Program:		
12.607 Community Economic Adjustment Planning Assistance	\$ 707,815	\$
<u>U.S. Department of Housing and Urban Development</u>		
Direct Programs:		
14.178 Transitional Housing	\$ 117,000	\$
Community Development Block Grant Cluster:		
14.218 Community Development Block Grant/Entitlement Grants	16,647,848	2,860,672
14.219 Community Development Block Grant/Small Cities Program	489,654	489,654
14.231 Emergency Shelter Grants	549,169	428,959
14.235 Supportive Housing Program	61,010	
14.238 Shelter Plus Care	1,233,108	
14.239 Home Investment Partnerships	5,434,251	989,200
14.241 Housing Opportunities for Persons with AIDS	452,143	272,008
14.246 Brownfields Economic Development Initiative	1,280,647	
14.871 Section 8 Housing Choice Vouchers	19,284,140	19,284,140
14.900 Lead Based Paint Hazard Control	122,627	
Pass Through Kentucky Housing Corporation:		
14.235 Supportive Housing Program	13,917	

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

CFDA # Program Title	Expenditures	Provided to Subrecipients
<u>U.S. Department of Housing and Urban Development (Continued)</u>		
Pass Through Housing Authority of Louisville:		
14.850 Public and Indian Housing	\$ 351,268	\$
Pass Through Housing Authority of Jefferson County:		
14.856 Section 8 Moderate Rehabilitation	135,204	
Total U.S. Department of Housing and Urban Development	\$ 46,171,986	\$ 24,324,633
<u>U.S. Department of the Interior National Park Service</u>		
Direct Programs:		
15.904 Historic Preservation Fund Grants and Aid	\$ 83,863	\$
15.919 Urban Park and Recreation Recovery Program	15,339	
Pass Through Kentucky Heritage Council:		
15.904 Historic Preservation Fund Grants and Aid	10,000	
Pass Through Kentucky Department of Local Government:		
15.916 Outdoor Recreation Acquisition, Development, and Planning	60,000	
Total U.S. Department of the Interior National Park Service	\$ 169,202	\$
<u>U.S. Department of Justice</u>		
Direct Programs:		
16.004 Law Enforcement Assistance - Narcotics Training	\$ 12,424	\$
16.305 Law Enforcement Assistance - Uniform Crime Reports	10,643	
16.544 Gang Free Schools and Communities	65,225	
16.565 Terrorism Technology Development Program	3,000	
16.589 Rural Domestic Violence and Child Victimization Enforcement Grant Program	349,152	
16.590 Grants to Encourage Arrest Policies and Enforcement of Protection Orders	424,936	91,756
16.592 Local Law Enforcement Block Grant	1,034,997	
16.595 Weed and Seed	197,535	
16.710 Community Policing Grants	3,020,031	
Pass Through Kentucky Justice Cabinet:		
16.523 Juvenile Accountability Incentive Block Grant	144,198	
16.548 Delinquency Prevention Program	6,621	
16.579 Byrne Formula Grant Program	1,399,266	
16.588 Violence Against Women Formula Grants	146,293	
Total U.S. Department of Justice	\$ 6,814,321	\$ 91,756

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

CFDA # Program Title	Expenditures	Provided to Subrecipients
<u>U.S. Department of Labor</u>		
Direct Programs:		
17.249 IT Advantage	\$ 365,007	\$ 35,641
17.253 Welfare to Work	1,532,951	903,928
17.260 WIA Dislocated Workers	85,444	
17.263 Youth Opportunity Initiative	5,660,332	3,894,902
Pass Through Kentucky Cabinet for Families and Children:		
17.253 Welfare to Work	397,212	
Workforce Investment Act Cluster:		
17.258 WIA Adult Program	921,262	
17.259 WIA Youth Activities	1,048,031	620,480
17.260 WIA Dislocated Workers	1,881,712	1,450,764
17.267 WIA Incentive Grants	207,844	
Total U.S. Department of Labor	\$ 12,099,795	\$ 6,905,715
<u>U.S. Department of Transportation</u>		
Pass Through Kentuckiana Regional Planning and Development Agency:		
20.205 Highway Planning and Construction	75000	
Pass Through Indiana Transportation Cabinet:		
20.512 Federal Transit Technical Assistance	24,163	
Pass Through Kentucky Transportation Cabinet:		
20.205 Highway Planning and Construction	\$ 5,775,273	\$
20.219 Recreational Trails Program	29,515	
20.512 Federal Transit Technical Assistance	439,368	
Pass Through Kentucky State Police:		
20.215 Highway Training and Education	33,005	
Pass Through Kentucky Justice Cabinet:		
20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	41,091	
Total U.S. Department of Transportation	\$ 6,318,252	\$

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

CFDA # Program Title	Expenditures	Provided to Subrecipients
<u>U.S. Institute of Museum and Library Services</u>		
Direct Program:		
45.312 National Leadership Grants	\$ 236,517	\$
Pass Through Kentucky Department of Libraries and Archives:		
45.301 Learning Opportunities Grant	\$ 14,000	\$
Total U.S. Institute of Museum and Library Services	\$ 250,517	\$
<u>U.S. Environmental Protection Agency</u>		
Direct Programs:		
66.001 Air Pollution Control Program Support	\$ 1,073,962	\$
66.034 Clean Air Act - Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act (B)	138,856	
66.551 Brownfields Redevelopment	66,820	
66.606 Surveys, Studies, Investigations and Special Purpose Grants	104,731	
66.951 Environmental Education Grant	20,626	
Pass Through Kentucky Department of Public Health:		
66.032 Indoor Radon Grants	17,253	
66.606 Surveys, Studies, Investigations and Special Purpose Grants	3,043	
Total U.S. Environmental Protection Agency	\$ 1,425,291	\$
<u>U.S. Department of Energy</u>		
Pass Through Kentucky Natural Resource and Environmental Protection Cabinet:		
81.041 State Energy Program (A)	\$ 6,461	\$
81.117 Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance (B)	582	
Pass Through Kentucky Cabinet for Families and Children:		
81.042 Weatherization Assistance for Low Income Persons	252,619	
Pass Through Kentucky Association of Community Action:		
81.042 Weatherization Assistance for Low Income Persons	201,682	
Total U.S. Department of Energy	\$ 461,344	\$

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

CFDA # Program Title	Expenditures	Provided to Subrecipients
<u>Federal Emergency Management Agency</u>		
Pass Through Metro United Way:		
83.523 Emergency Medical Assistance	\$ 108,722	\$
Pass Through Kentucky Department of Military Affairs:		
83.548 Hazard Mitigation	2,037	
83.551 Project Impact	351,735	
83.552 Terrorism Response	562	
Total Federal Emergency Management Agency	\$ 463,056	\$
<u>U.S. Department of Education</u>		
Pass Through Kentucky Department of Libraries and Archives:		
84.034 Talking Book Library	\$ 91,211	\$
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
93.008 Medical Reserve Corps Small Grant Program	\$ 20,259	\$
93.048 Special Programs for the Aging Title IV and Title II Discretionary Projects	50,041	
93.230 Consolidated Knowledge Development and Application (KD&A) Program	424,222	
93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance	75,430	
93.926B Healthy Start Initiative (B)	1,110,891	
Pass Through Kentuckiana Regional Planning and Development Agency:		
93.045 Special Programs for the Aging Title III, Part C - Nutrition Services (A)	1,229,895	
Pass Through Kentucky Department for Public Health:		
93.116 Project Grants and Cooperative Agreements for Tuberculosis Control	158,115	
93.197 Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	604,989	
93.217 Family Planning Services	411,930	
93.235 Abstinence Education	26,344	
93.268 Immunization Grants	256,296	
93.283 Centers for Disease Control and Prevention - Investigations and Technical Assistance	338,686	
93.667 Social Services Block Grant	59,696	
93.767 State Childrens Insurance Program	126,913	
93.778 Medical Assistance Program	14,554	

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

CFDA # Program Title	Expenditures	Provided to Subrecipients
<u>U.S. Department of Health and Human Services (Continued)</u>		
93.919 Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	111,628	
93.940 HIV Prevention Activities - Health Department Based	171,972	
93.944 Human Immunodeficiency Virus (HIV), Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	42,180	
93.945 Assistance Programs for Chronic Disease Prevention Control	104,830	
93.959 Block Grants for Prevention and Treatment of Substance Abuse	894,197	
93.977 Prevention Health Services Sexually Transmitted Disease Control Grants	155,651	
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance System	2,000	
93.991 Preventative Health and Health Services Block Grant	268,372	
93.994 Maternal and Child Health Services Block Grant to the States	1,194,223	
Pass Through Prevent Child Abuse Kentucky, Inc:		
93.556 Promoting Safe and Stable Families	33,690	
Pass Through Kentucky Cabinet for Families and Children:		
93.558 Temporary Assistance for Needy Families	6,011	
93.568 Low Income Home Energy Assistance	1,981,180	
93.569 Community Services Block Grant	1,707,280	20,000
Pass Through Kentucky Association of Community Action:		
93.568 Low Income Home Energy Assistance	145,897	
Pass Through Kentucky Commission for Children with Special Health Care Needs:		
93.994 Maternal and Child Health Services Block Grant	\$ 60,688	\$
Total U.S. Department of Health and Human Services	\$ 11,788,060	\$ 20,000
<u>Corporation for National and Community Service</u>		
Direct Programs:		
94.002 Retired and Senior Volunteer Program	\$ 123,178	\$
94.011 Foster Grandparent Program	373,168	
Total Corporation for National and Community Service	\$ 496,346	\$
Total Expenditures of Federal Awards	\$ 89,737,843	\$ 31,342,104

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Louisville/Jefferson County Metro Government and is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 – Outside Audits and Investigations

Kentuckiana Works' Welfare to Work Grant

On October 29, 2002, the Office of the Inspector General of the U.S. Department of Labor (DOL) began an audit of the Welfare to Work Grant. At this time, the Office of Inspector General has issued the Statement of Facts (SOF) summary and Kentuckiana Works has responded, but the audit has still not been completed.

Department of Justice Site Visit

On November 19-20, 2003, the Department of Justice conducted site visits to perform routine grant financial monitoring on the following grants:

2001JDFX0005	Gang Free Communities
2002GPCX0215	Project Safe Neighborhoods Research Partner
2001LBBX3754	Local Law Enforcement Block Grants Program
2002LBBX2235	Local Law Enforcement Block Grants Program

At this time, DOJ has not issued a report.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the basic financial statements of Louisville/Jefferson County Metro Government for the year ended June 30, 2003.

Compliance: In relation to the audit of the basic financial statements of Metro, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed one (1) instance of noncompliance that is required to be reported under *Government Auditing Standards*. We do not believe the noncompliance to be material.

Internal Control Over Financial Reporting: Our consideration of Metro’s internal control over financial reporting disclosed fifteen (15) reportable conditions. We believe three (3) of the reportable conditions are material weaknesses.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued an unqualified opinion on Metro’s compliance with the requirements applicable to each of its major federal programs. The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance: Our consideration of Metro’s internal control over compliance disclosed two (2) reportable conditions. We do not believe that these reportable conditions are material.

Schedule of Expenditures of Federal Awards: We issued an unqualified opinion on Metro’s Schedule of Expenditures of Federal Awards.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Identification of Major Programs Audited

Based on OMB Circular A-133, the following is a list of major Type A programs audited:

CFDA #	Program Title	Expenditures
CDBG Cluster:		
14.218	Community Development Block Grants/Entitlement Grants	16,647,848
14.219	Community Development Block Grants/Small Cities Program	489,654
14.239	Home Investment Partnerships	5,434,251
14.871	Section 8 Vouchers	19,284,140
16.710	Community Policing Grants	3,020,031
Workforce Investment Act Cluster:		
17.258	WIA Adult Program	921,262
17.259	WIA Youth Activities	1,048,031
17.260	WIA Dislocated Workers	1,881,712
17.263	Youth Opportunity Initiative	5,660,332
20.205	Highway Planning and Construction	5,775,273
Total Type A Programs Audited		<u>\$60,162,534</u>

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$2,711,056.

Auditee Risk

Metro did not qualify as a low-risk auditee.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Material Weaknesses and/or Material Instances of Noncompliance:

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process

The former Jefferson County government and the City of Louisville merged on January 6, 2003. Merging the financial management systems of the two governments has been a difficult endeavor. During the course of planning and performing our audit of the Louisville/Jefferson County Metro Government CAFR, we noted several weaknesses regarding controls over financial reporting of the government. The following issues concern us:

- Adequate controls over the financial reporting process were not in place to reduce the government's risk of material misstatement. This resulted in:
 - Decisions impacting the reporting entity, such as determination of new component units or changes in existing component units due to the merger, were not made until well after the end of the fiscal year.
 - The information obtained from all governmental agencies or departments making up the reporting entity for reporting in the financial statements was often incomplete and inaccurate, such as capital assets and infrastructure information and data relating to employee leave balances for accruing compensated absences liability as noted in a separate finding below.
 - The government did not adhere to a reasonable closing schedule for its accounting records. Material changes in the accounting system were last posted on February 25, 2004, with even more material manual adjustments to the financial statements made at a later date.
- During our audit, we noted that there was no requirement for Metro agencies to report financial information to a central reporting team or a timeframe for reporting needed information.
- The government decided to maintain the separate accounting systems of the former City of Louisville and the former Jefferson County after the merger on January 6, 2003, through June 30, 2003. However, due to significant staff turnover, once the merger was accomplished, no one responsible for financial reporting within the Metro Finance Department had the knowledge or expertise of the former Jefferson County accounting system to provide proper oversight of the financial transactions necessary to close the county accounting system.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process (Continued)

The failure to put in place strong controls over financial reporting, especially during periods of significant change within a government, greatly increases the risk of materially misstated financial statements due to errors or omissions.

The inability to provide proper oversight of the transactions accounted for in the former Jefferson County's accounting system left millions of dollars at risk for loss due to fraud, error, or improper financial reporting.

Generally accepted accounting principles require an internal control system which provides controls to ensure compliance with laws and regulations, safeguards its assets, checks the accuracy and reliability of its accounting data, and promotes operational efficiency. A good internal control system is essential for the achievement of full accountability, which is a primary issue in today's government.

Proper internal control and sound management practices dictate that financial managers identify the risks of improper or inaccurate financial reporting, and take measures to address those risks.

Furthermore, sound management and a control structure sufficient to maintain government operations require staff that is accountable for financial reporting; that collectively have or obtain sufficient skill and training to provide adequate oversight needed to meet their responsibilities.

Recommendation:

We recommend that Metro make accurate and complete financial reporting a priority. Procedures should be developed and implemented to ensure that financial managers properly report all information to the reporting team.

We further recommend the following:

- Strong consideration should be given to creating a central reporting team, which primarily is concerned with financial reporting.
- Metro Finance Department implement procedures to periodically identify and address those risks that could lead to inaccurate financial reporting as a result of errors or fraud. These procedures should include but not be limited to:
 - Enhancement of the collective expertise of accounting staff related to specific financial activities of the merged government, as well as governmental accounting and reporting in general.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process (Continued)

Recommendation (Continued):

- Establishment of a formal closing schedule that should be communicated to all business managers and strictly followed.
- Formal procedures to identify and address changes in financial reporting due to either local events or changes in generally accepted accounting principles. The government should be proactive in identifying and addressing these changes.

Management's Response and Corrective Action Plan:

The accuracy and integrity of financial reporting for Metro Louisville is a priority of the Finance Department.

The merger of the former City of Louisville and former Jefferson County was a historic event that created many challenging situations for Metro agencies including Finance. However, audit was and continues to be a priority along with ensuring the accurate and timely payment of employees and vendors, implementing the new financial system, merging the payroll systems, and meeting the operating demands of government.

Finance staff did took proactive steps to prepare for merger with particular regard for ensuring the integrity of financial information and to safeguard assets.

Listed below are some of the proactive steps taken by finance to prepare for the impact of merger:

Pre-Merger

Planning: *In August 2001 the Finance Committee of Merger Task Force, Co-Chaired by the CFO's of City and County, began to develop and implement a plan to prepare the governments of the former City of Louisville and former Jefferson County for merger. The Finance committee membership included local CPA's, bankers, the City of Louisville Internal Auditor and Finance staff from both governments among others.*

The Finance committee (Merger Task Force) determined that the issues most critical to the success of merger included management of payroll, risk issues, budget, procurement and the general ledger/financial system.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 32

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process (Continued)

Management's Response and Corrective Action Plan (continued):

The Task Force approved recommendations throughout the course of the next year.

Representatives from the former City and County's Finance staffs sought advice from the State Auditor in November 2001 and met with State Auditor staff in December 2001 regarding issues raised with the Finance committee (Merger Task Force) including reporting issues, timing of audits, etc.

Simultaneously, a joint City/County project team was established in 2001 to select a new financial system. An aggressive implementation schedule was put into place and successfully completed on time and within budget. Extensive resources were committed to this project

Beginning in April 2002 an additional staff person was retained to begin to review the business processes of the government and to lead the implementation of the financial system internally. This individual was familiar with both the former City and County financial practices and is a member of the Finance management team.

The individual governments passed a full fiscal year 2003 budget. The Merger Task Force supported this direction and determined that this would provide for the continuity of operations and would allow the new government to function without disruptions in services during the transition period.

Management determined it was prudent for the budgets to remain on the two separate financial systems rather than having one government transition to a financial system for six months and then subsequently to the new system. It was not an option to transition information to one of the old systems nor was it an option to implement the new financial system at an earlier date. The project plan for the new system determined that the inherent risk of a mid-year conversion from two separate financial systems was greater than any perceived benefit.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process (Continued)

Management's Response and Corrective Action Plan (Continued):

In addition, expenditure limits were put in place to ensure the outgoing government did not expend all the resources of the fiscal year prior to merger.

New Administration

Transition

Planning: *In November 2002, the CFO of the City met with Metro Mayor-Elect's transition team and outlined the issues that were critical to the success of merger in the first six months of the newly merged government relating to Finance. The top four issues presented were: the implementation of the new Oracle financial system, determine payroll method, determine status of tax collections and interim financial reporting.*

Post-Merger

Planning: *A functional analysis was completed in January and February 2003 to determine staff member skill sets with specific regard for retaining staff necessary to meet our mission of ensuring the financial integrity of metro government by directing, coordinating, and monitoring all financial functions of the metro government.*

In reviewing staff responsibilities, management determined the outflow of fiscal resources occurs in three ways from Finance:

- 1. through accounts payable transactions*
- 2. through transfers of funds in investments*
- 3. through payroll transactions*

The CFO deemed it critical to retain the management of each of these divisions from both City and County. These individuals continue to be employed by the Finance Department today.

Since merger the planning efforts have resulted in the completion of a management review with consultants, a draft of the Finance strategic plan for the upcoming fiscal year, a new investment policy, debt policy, and ending fund reserve policy, the issuance of a request for proposals for banking services (a recommendation is pending), a new organizational structure to be implemented July 1, 2004, new policies and procedures issued throughout the first year, monthly business manager meetings (this brings together the financial leaders in each department of government), an institutionalized training program for users of the financial system.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 34

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process (Continued)

Management's Response and Corrective Action Plan (Continued):

In July, Finance staff performed an analysis of potential component units and reviewed the results with legal counsel. Pursuant to this review, Finance notified the entities facing potential reporting changes on August 4, 2003 that based on the criteria established by GASB Statement 14 the government intended to include their entity as a component unit unless they provided information and documentation to support otherwise.

The merged government did issue a closing schedule and formal year-end instructions to each agency. However, due to the difficulties in year-end closing while implementing the new financial system we were unable to meet that schedule.

As stated above, the City and the County embarked on a joint project to select and implement a financial system that could be used to support Metro Louisville. Neither the City's nor the County's financial system was determined to be adequate to support the needs of Metro. Merger occurred January 6, 2003, the middle of both the City's and the County's fiscal years. The new financial system was implemented July 1, 2003. We determined it to be the most fiscally responsible course of action to continue operating on the two separate financial systems for remaining six months of the fiscal year even though merger had occurred. Continuing operations on known systems with existing staff during this turbulent time period was the most prudent course of action.

The APA has noted concerns with the oversight of the County financial system and has indicated that a budgetary decision negatively impacted that oversight. We strongly disagree with this characterization and affirm that there was adequate oversight and controls in place to ensure the integrity of the information in the system. It is inaccurate to assume that budget decisions dictated the level of oversight available. Thoughtful consideration was made concerning the contributions and knowledge of all staff members when staff assignments were made. While in fact, some staff members gained additional understanding of the County's system to ensure its accurate and timely operation. Any staff adjustments that were a result of the functional analysis were made after the beginning of the next fiscal year and the conclusion of daily operations of the County financial system. There was no systematic breakdown in procedures that placed the integrity of the financial system in jeopardy. In fact, former City Finance staff spent the first three critical months of merger working with the APA staff to complete the County annual report issued in March 2003. No assertions or concerns were raised at the completion of that audit concerning oversight. It should be noted that the accounting unit of Finance is the central financial reporting team for Metro Government.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process (Continued)

Management's Response and Corrective Action Plan (Continued):

In September of 2003, the APA audit manager outlined the key areas where decisions needed to be made in order to complete the audit. To assist in addressing the key areas of audit concern Finance management requested a weekly audit status meeting.

Looking forward, the Finance department has developed a new organizational structure that emphasizes accounting as a program and realigns the grants function from budget to accounting. Additional senior level accounting staff will be secured with a strong focus on accounting and financial reporting. An ongoing training program has been implemented to ensure agencies have adequate access to resources to assist them in expanding their knowledge of how to use the financial and payroll human resources systems. The Finance Cabinet (Finance, Human Resources, Information Technology and Purchasing) instituted a monthly business managers meeting in November 2003 as a forum to address agencies needs and concerns and where policy and procedure directives and updates are delivered in a consistent and systematic manner.

Auditor's Reply:

While we understand the merger of the former Louisville City and Jefferson County governments was and continues to be a challenging process, with inherent problems, the impetus of our comment is that there were not adequate planning considerations made in the financial reporting area of the new government. We noted difficulties in almost all aspects of our planned procedures, including cash management issues, capital assets data, and financial reporting in several areas for presentation in the CAFR. We were able to work through our audit issues and conclude on the fairness of presentation of the new government's financial activity. However, we believe these problems are confirmed by the extensive extra amount of time needed to complete the CAFR report and provide an opinion.

As the Metro Finance response indicates, numerous meetings were held with its management in which our concerns were outlined related to the progress of the audit, the auditors' inability to obtain timely, sufficient supporting documentation, and difficulty in obtaining routine closing period information. In its response, Metro Finance indicated that the APA never addressed staffing concerns during these meetings, which is accurate. Metro Finance's upper management was in attendance at each of these meetings where they and their staff discussed various problems in addressing audit requests – including a limited knowledge of the former county operations and its accounting system. The APA, in order to maintain proper independence, refrains from interfering with management decisions, such as staffing.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-1: Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process (Continued)

Auditor's Reply (Continued):

We encourage Metro to review our recommendations noted in this comment and others, in the light we intended, and not as criticism, but as a means to improve the reporting process. We would hope that the corrective action taken on these issues would create a more timely and accurate report.

03-Metro-2: Internal Controls Over Reporting Capital Assets Should Be Developed And Implemented

During our review of internal controls over capital assets, we noted the following weaknesses:

- Agencies did not complete the Asset Data Record (ADR) forms in a timely manner or not at all. All agencies are required to complete these forms when a capital asset in excess of \$5,000 is purchased or disposed of. Our tests indicated this did not occur.
- Finance does not compile capital asset information in a timely manner. There is no formal system for obtaining capital asset information from all governmental agencies, including reporting requirements for financial statements. For the year under audit, we did not receive complete information for 6 months after the end of the fiscal year.
- There are no control features to ensure that all assets have been included in the financial statements, including:
 - The agency has no procedures for identifying capital assets, such as tagging assets in excess of the capitalization threshold.
 - There is no requirement for periodic physical counts of assets.
- There is no review of purchases, invoices, surplus reports, etc. to verify that all capital asset additions and disposals have been properly recorded.

Given the merger of the Jefferson County and City of Louisville governments, and the amount of prior period adjustments, recommended based on our audit work, it would seem reasonable that there should have been some type of verification procedures applied to ensure that capital assets information was accurate and up-to-date. We recommended adjustments to capital asset records that decreased capital assets by \$382,043,030 and

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-2: Internal Controls Over Reporting Capital Assets Should Be Developed And Implemented (Continued)

increased accumulated depreciation by \$115,120,932. No procedures were performed until the auditors found discrepancies in the information provided the APA.

Poor internal controls over capital assets could lead to misappropriation of assets and incorrect reporting of capital asset information on the financial statements. Therefore, sufficient internal controls dictate that proper accounting and reporting procedures should be implemented over capital assets to ensure that financial reporting is complete and accurate.

The Metro Government's Capital Asset Policy stipulates, "The Asset Data Record (ADR) must be completed by the agency and sent to the Finance Department for qualifying purchases, retirements, and transfers in the month they occur."

Recommendation:

We recommend the following considerations be made:

- Develop a formal capital asset system, including policies and procedures for reporting that information.
- Develop a reporting system to ensure that all agencies provide reporting information in a timely manner.
- Agency level staff should be trained on capital asset accounting procedures.
- Management involvement and oversight. Management needs to consider adding additional procedures to the current capital asset policy manual, such as tagging of capital assets and periodic capital asset counts.
- A full-time position should be established to work only on capital assets at the central level, so capital asset activity could be monitored throughout the year.

Management's Response and Corrective Action Plan:

Fixed assets has been a contentious audit issue and has required extensive time and effort to resolve to some level of satisfaction. It is discouraging for the Auditor of Public Accounts to state "there should have been some type of verification procedures applied to ensure that fixed asset information was accurate and up-to-date" and to surmise that "no procedures were performed until the auditors found discrepancies in the information provided the APA." There were many challenges in merging the two assets systems and

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-2: Internal Controls Over Reporting Capital Assets Should Be Developed And Implemented (Continued)

Management's Response and Corrective Action Plan (Continued):

extensive efforts were made to complete assets to the auditors' satisfaction. For example, errors were found with the county prior year fixed assets schedule that had received APA review. Finance staff identified and worked to resolve those errors. Such extensive efforts have been a drain of resources from other equally critical audit and financial work. This time consuming resolution of assets has delayed loading assets data into the new financial system that was implemented July 1, 2004 to support Metro Government.

Significant verification procedures were performed on assets. However, the majority of issues were related to historical assets verification and were dependent upon agencies accurately reporting the information. The APA identified some issues when testing the verification; the most significant being a current cost factor used to calculate an infrastructure value. Finance staff reviewed this information with the agency on several occasions prior to reporting it to the APA.

The new financial system provides a fixed assets system that Metro Louisville will use to report fixed assets for all future years. Finance has provided agency staff with the fixed asset policy and reporting requirements on multiple occasions. System training will be provided before June 30, 2004 as soon as fixed assets can be loaded into the financial system. Loading the data had been delayed pending completion of assets for the current audit. When asset information is available on the financial system, agency staff will have immediate access to all asset data recorded for their agency. This information will provide them with the tools available to monitor what has been recorded for their agency and submit asset data records to record new assets as needed.

The Finance staff is developing reports that agency staff can use to monitor their expenditures for fixed assets acquisitions. Because expenditures are authorized at the agency level business managers are key to identifying and recording assets as they are purchased. Agencies have been notified that assets information must be reported monthly for assets purchased in the previous month and is due by the tenth day of the following month (i.e. reporting on assets purchased in March are due by April 10th). Finance is developing additional verification procedures to ensure asset information is accurate and has developed a team approach to performing the asset function committing two staff members to fulfilling this responsibility.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-2: Internal Controls Over Reporting Capital Assets Should Be Developed And Implemented (Continued)

Auditor's Reply:

A beginning balance restatement of \$266 million suggests that our recommendations are accurate and worthy of consideration. We initially planned to test significant assets by spot counting in those areas. Initial testing indicated material errors in four out of the five areas selected for testing. Thus, we suggested Metro review its capital asset information and re-perform counts in order to verify its accuracy and completeness. This procedure resulted in the prior period adjustment. We submit that our procedures were necessary and reasonable, and should have been considered when the governments were merged.

We did not intend for the issue to become contentious, but we felt compelled to ensure the risk of material misstatement be reduced by suggesting extensive time and effort be made to verify the information reported to us. We encourage Metro Finance to adhere to its corrective action plan and keep moving toward more fiscally responsible financial reporting.

03-Metro-3: Immediate Implementation Of Control Procedures Over Cash Management Functions Is Needed, Including The Timely Completion Of Bank Reconciliations

During our review of cash we noted the following areas of weakness:

- There is no central agency or person that maintains oversight and monitors control of cash management activities or takes responsibility for decision-making over cash management functions.
- Standard cash management procedures have not been adopted for use by all agencies; thus, there is no consistent method for treating all types of transactions, i.e., standard forms and standard procedures.
- There is no policy for the timely completion of bank reconciliations or procedures for agreeing bank reconciliations to the general ledger, so that errors may be corrected to the accounting system.
- Treasury procedures do not address central compilation of information.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-3: Immediate Implementation Of Control Procedures Over Cash Management Functions Is Needed, Including The Timely Completion Of Bank Reconciliations (Continued)

- Bank reconciliations of the merged government were not prepared in a timely manner. At the time of our request for audit information in this area, there were 30 bank accounts of the merged government. Of those accounts, none of the former Jefferson County accounts had been reconciled since the time of the merger in January. Sporadic reconciliations of the former city accounts had occurred since that time. None of the accounts were reconciled to the current period, except the city's payroll.

A government entity needs an internal control system that provides controls to ensure compliance with laws and regulations, safeguards its assets, checks the accuracy and reliability of its accounting data, and promotes operational efficiency. A good internal control system is essential for the achievement of full accountability, which is a primary issue in today's government.

Good cash management dictates all bank accounts are reconciled monthly. Additionally, use of standard reporting procedures, standard reporting forms, and timeliness of fulfilling standard operating procedures, ensures adequate oversight management of the cash functions.

Failure to accurately reconcile bank accounts could cause errors to occur and not be detected in a timely manner. Identified errors that could result in adjustments include:

- Duplicate entries of checks in cash disbursements records
- Checks omitted from cash disbursement records
- Old outstanding checks not being written off
- Ending cash balances on monthly bank reconciliations were incorrect

Recommendation:

We recommend:

- Committing resources to develop a central reporting function for all financial management activity, including cash management activities. Consistent management oversight should be included as part of that process.
- Developing standard cash management procedures for reporting financial transactions from each agency, i.e., standard forms.
- Determining a reasonable time frame for performing the monthly bank reconciliations, and ensuring completion of that process in that time frame.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 41

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-3: Immediate Implementation Of Control Procedures Over Cash Management Functions Is Needed, Including The Timely Completion Of Bank Reconciliations (Continued)

Management's Response and Corrective Action Plan:

Cash Management is the centralized unit for recording cash receipts on Metro's books and has certain oversight responsibilities with regard to bank accounts. Cash Management controls the movement of funds from and within Metro bank accounts with the exception of two accounts controlled by corrections staff for inmate fund accounts. Cash Management controls the movement, recording and disbursement of funds in Metro accounts.

Metro government is a large diverse organization that has offices that are geographically separated requiring multiple agency level depository accounts to assist in timely deposit of funds collected. The geographic location of these numerous sites does not allow wholly centralized cash receipt and cash management functions. Agency business managers are responsible for oversight of their agencies financial transactions including cash receipts.

To ensure adequate separation of duties the accounting division is responsible for reconciliation of bank accounts. Bank reconciliation is to be performed by accounting staff monthly. Finance management is working with the staff to ensure the accounts are reconciled timely. In addition Finance is currently in the process of reviewing banking bids and will be restructuring all metro accounts when it is awarded, with consideration for reducing and consolidating the number of accounts when possible. When the banking relationship is defined, where appropriate, new procedures and guidelines for handling, depositing and reporting all receipts will be provided.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

***Reportable Conditions Relating to Internal Controls and/or
Instances of Noncompliance***

**03-Metro-4: The Louisville/Jefferson County Metro Government Should Ensure
Adequate Mainframe And Network Level Security Procedures Are In Place**

In fiscal year 2003, the Louisville/Jefferson County Metro Government used the mainframe financial system, Geac Computer Corporation Limited (referred to as DBS). Our audit of the logical security procedures in operation for Metro's mainframe platform revealed several significant findings. These findings are summarized as follows:

1. Control procedures did not exist to properly secure the mainframe.
 - An outdated version of the CA-Top Secret security package was used to control mainframe access.
 - A mainframe user's manual did not exist.
 - The mainframe security administrator had a security manual that was compiled by a previous administrator. However, this manual was incomplete and did not explain the related CA-Top Secret security files or how to run security related reports. Further, this manual did not explain the need to periodically generate and review such reports.
 - A callback process, request form, or other verification procedure is not performed when resetting passwords to ensure that a valid user made the request.
2. No monitoring is performed to ensure that mainframe user accounts are accurately established and that only those privileges necessary for the user are granted.
 - The validity of mainframe users and the necessity of the privileges granted to those users are not periodically reviewed. Our testing revealed that the mainframe security administrator was unaware that several users had administrator access.
 - Procedures were not established to inform the mainframe security administrator of government employee transfers, terminations, retirements, etc.
3. Mainframe System password policies were inadequate.
 - Password policies were not formally established. Additionally, informal password policies are in conflict with system capabilities. For example, per the security administrator, the minimum length of passwords should be set at seven characters; however, in some instances the system will not accept a seven-character password. Additionally, the informal policy above allows the user's password to be any combination of letters and numbers. However, the

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-4: The Louisville-Jefferson County Metro Government Should Ensure Adequate Mainframe And Network Level Security Procedures Are In Place (Continued)

system does not necessarily accept a password combining letters and numbers. Further, the system does not accept special characters.

- Procedures were not developed to ensure password policies are enforced. Mainframe passwords do not expire every 90 days as the administrator stated.
- No process exists for the system to require a user to change passwords on the first login to the system.

To test the accuracy of establishing a mainframe user account, we examined five (5) of the 13 new users given access to DBS in fiscal year 2003. We found passwords were in clear text on one of the maintenance screens. The mainframe security administrator stated that these were the original passwords that had been given the users. Under auditor observation, the security administrator attempted to log onto the mainframe with these user account names and passwords. Of the five (5) tested, access was gained to the mainframe for three (3) of these users. It appeared that the originating passwords for two (2) of these users should have expired provided that the password policy of a 90-day maximum life was functioning as expected. The two passwords were initiated five (5) to ten (10) months earlier. Therefore, we conclude that the setting for password life to expire in 90 days is not functioning properly.

Finally, the auditor examined those user accounts that could access the mainframe production libraries for the DBS system. We found that the private DBS consultant had “All” access to the production Job Control Language (JCL) library, DBSPROD.JCL.

These security issues result in a lack of sufficient controls to detect and prevent an unauthorized individual from gaining access to the mainframe based financial system.

For general security to be effectively implemented and maintained, written policies and procedures should be developed. Formalized security policies provide continuity for policy implementation and illustrate management’s concern for strong system security. Security policies should include roles and responsibilities of key positions necessary to identify and respond to a computer incident or intrusion from external or internal sources. Finally, security policies and procedures should ensure user account passwords are restricted to the actual user and cannot be viewed by other external or internal parties.

Failure to adequately document and communicate security policies could lead to a lack of understanding by management and users, resulting in a failure to perform assigned security responsibilities and adequately secure the system. Failure to adequately secure the system increases the likelihood of unauthorized data or program modification, destruction of assets, and interruption of services.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 44

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-4: The Louisville-Jefferson County Metro Government Should Ensure Adequate Mainframe And Network Level Security Procedures Are In Place (Continued)

We are also aware that there are separate procedures established for the local area network (LAN) passwords. However, formal network policies have not yet been established.

Recommendation:

We are aware that this mainframe system will no longer be operational as of June 30, 2003. However, the new financial system will be a network-based platform. The following recommendations are made for the new financial system that will be implemented.

Metro should develop detailed written policies to establish standards for system security and procedures to be followed by the security administrator and system users. Further, the initial password users receive should expire after their initial login. This requires the user to change their password immediately. Passwords established by the user should expire periodically, preferably within 30-45 days. The passwords for all systems and applications should not be displayed in clear text on the login screen and should be encrypted within the password files maintained on the system servers. Established policies should clearly state the requirements for password formats and should provide for procedures to ensure password policies are enforced. Finally, procedures should be established to periodically review the necessity and propriety of access privileges for all users of the new financial system.

Management's Response and Corrective Action Plan:

Information Technology agrees with the recommendations and is taking measures to insure compliance.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-5: The Louisville/Jefferson County Metro Government Should Ensure Adequate Application Security Procedures Are In Place

Several concerns were identified during our audit of application logical security procedures in place for the Louisville/Jefferson County Metro Government financial systems used during fiscal year 2003. The financial systems are the Geac Computer Corporation Limited financial system (referred to as DBS) used by the City of Louisville and the Financial Accounting System (FAS) used by Jefferson County Fiscal Court (Fiscal Court). The security concerns found are in addition to the mainframe access security control concerns and are communicated in a separate comment.

The City of Louisville and the Fiscal Court operated separate financial systems (noted above) during fiscal year 2003. This included the period after the January 2003 merger that formed Metro throughout the remainder of the fiscal year. Our concerns with the security of these two systems are stated below.

Our major concerns with the DBS application security are:

- A separate logon is not required to access the DBS once an authorized user has logged on successfully through the mainframe. This concern is significantly elevated due to the lack of security controls noted for the mainframe.
- No periodic review is performed of DBS user access privileges to ensure they are valid and that access privileges are necessary. Although a series of reports listing users access privileges are available, these reports have not been produced since 1998.
- No procedures are in place to inform the DBS administrators of employee terminations, transfers, or retirements within Metro.
- No formal disaster recovery procedures are in place for the DBS. There are backup procedures for programs and data, but no formal recovery plan has been developed.
- Policies and procedures manuals were developed for the system, but they were not updated in the last several years.
- We noted occasions when vendors provided a tax ID number for payment purposes that is a person's social security number. In these cases, the system does not recognize the information as confidential because the tax identification number is required to be written in clear text as part of the contract. All contracts are eligible as a public records request.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-5: The Louisville/Jefferson County Metro Government Should Ensure Adequate Application Security Procedures Are In Place (Continued)

Additionally, weaknesses were discovered in the FAS security procedures used in Metro's county operations. Formal policies and procedures were not developed, but Metro followed certain procedures to secure system access based on user needs. However, the established procedures do not allow FAS users to control modifying their own passwords. Instead, passwords are distributed and controlled by the FAS security administrator. Further, the passwords are visible in clear text within the FAS application when an administrator account is used to log into the system. The person logging into the system using the administrator account or the account of any alternate security administrators can see passwords. This does not provide adequate control because it allows users to deny that they initiated or approved questionable transactions traced to their user account.

For general security to be effectively implemented, written policies and procedures should be maintained to support the current system. Failure to adequately document and communicate application based security policies could lead to a lack of understanding by management and users. This could result in a failure to comply with security policies or failure to perform assigned security responsibilities. This increases the likelihood of unauthorized data modification, destruction of assets, and interruption of services. Additionally, sensitive financial data maintained by Metro should be properly secured. Finally, security policies and procedures should ensure that user account passwords are restricted to the actual user and cannot be viewed by other external or internal parties. All passwords should be hidden or encrypted from plain view at all times.

Recommendation:

We are aware that these financial systems will no longer be operational as of June 30, 2003. Therefore, given that the new financial system will be on a network-based platform, the following recommendations are being made for the new financial system that will be implemented.

We recommend that Metro ensure:

- A separate application level security logon is implemented, when feasible, for the new financial system and that logon capability is sufficiently secured to include the encryption of user passwords.
- Reviews are performed periodically to determine the validity of financial system users and their associated access privileges.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-5: The Louisville/Jefferson County Metro Government Should Ensure Adequate Application Security Procedures Are In Place (Continued)

Recommendation (Continued):

- Written security policies and procedures are developed and implemented to cover:
 - Financial system security administrator responsibilities,
 - Financial system user responsibilities, and
 - Procedures for establishing, changing, and terminating user access including formalized procedures addressing employee terminations or transfers.
- System procedural manuals and documentation be developed or obtained and properly maintained for the new financial system.
- Properly approved access request forms are submitted and maintained on file prior to granting all users access to the new financial system.

Management's Response and Corrective Action Plan:

Information Technology agrees with the recommendations and is taking measures to insure compliance.

03-Metro-6: The Louisville/Jefferson County Metro Government Should Consistently Apply Formal Change Management Control Procedures To The Financial System

Formal program change control procedures were not established for the Louisville/Jefferson County Metro Government Geac Computer Corporation Limited financial system (referred to as DBS) and the Financial Accounting System (FAS). Further, informal processes established for DBS change control were not properly functioning.

Our review of a critical DBS production library revealed that 24 modules, or Job Control Language (JCL) programs, were added or updated during fiscal year 2003. Informal procedures require that a Division of Data Processing Move Sheet be submitted with proper approval to support movement of these changes into production. We found no forms for any of these changes. Further, in one instance an e-mail message was submitted to the production librarian from the DBS programmer requesting a program be moved from the test environment into production. This direct contact by the programmer with the librarian circumvents the control in place that required the programmer's supervisor to review and authorize the move request.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 48

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-6: The Louisville/Jefferson County Metro Government Should Consistently Apply Formal Change Management Control Procedures To The Financial System (Continued)

Metro contracts with an external software vendor to maintain FAS. This vendor had direct access to FAS and related utilities that would allow the vendor to change and compile the FAS source code and move the changed object code into production. A password protected modem port controls the vendor's access, but the vendor's activity was not logged and could therefore not be monitored. The vendor could make changes without responsible Metro employee's knowledge, given that the vendor's account activity is not logged. Further review revealed that Metro programmers responsible for the Jefferson County government operations had access to production programs and data. Though migration of programs into production is supervised, programmer access to production programs and data continues after migrating programs. As a result, unauthorized modifications to programs or data could occur. Though procedures are established, no formal policies exist to consistently implement program modification procedures in Jefferson County government operations.

With implementation of a new financial system in fiscal year 2004, Metro will migrate to a client-server based platform for that application. Program change control procedures were drafted for this platform. Properly implemented, these procedures should provide adequate control of the new financial system. However, at the time of the auditor's fieldwork, these procedures had not been formally adopted or implemented.

Formalized program modification policies and procedures are needed to ensure consistent application of program change requests and approvals, developing technical and user documentation, ensuring library maintenance control, training users, testing requirements, tracking of requests, transferring changes into production, and an audit trail of program changes. These policies and procedures should ensure programmers are properly segregated for other significant operations. Without having formalized control procedures over program changes, management increases the risk that incorrect or unauthorized changes could be moved into production and adversely affect system processing results.

Recommendation:

We are aware that these systems will no longer be operational as of June 30, 2003. Therefore, given that the new financial system will be on a network-based platform, the following recommendations are made for the new financial system that is being implemented.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-6: The Louisville/Jefferson County Metro Government Should Consistently Apply Formal Change Management Control Procedures To The Financial System (Continued)

Recommendation (Continued):

Metro should ensure that complete, formalized program change management control policies and procedures are developed and implemented. This would ensure that procedures are consistently applied for program change requests and approvals, ensuring library maintenance controls, transferring changes to production, providing an adequate audit trail, and segregating programmers from other significant operations.

Management's Response and Corrective Action Plan:

Information Technology agrees with the recommendations and is taking measures to insure compliance.

03-Metro-7: Adequate Documentation Should Be Maintained To Support Transactions

During our testing of capital expenditures, operating expenditures, revenues, and fixed assets additions, we noted several similar weaknesses in each area:

- Inadequate or missing documentation.
 - Requests for supporting documentation resulted in three (3) transactions with no supporting documentation, six (6) transactions with inadequate supporting documentation to satisfy audit objectives, and 13 transactions with no support maintained in the Finance Department's Accounts Payable Section.
 - For our testing of revenues, Metro Finance did not maintain adequate supporting documentation of journal voucher entries. Although we were able to eventually verify our test items, it required additional efforts and extended audit procedures to find adequate supporting information.
- Expenditures recorded in the wrong fiscal year.
 - Our testing indicated six (6) items that were reported in the wrong fiscal year. All six (6) transactions were related to fiscal year 2002 invoices that were recorded as fiscal year 2003 expenditures.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-7: Adequate Documentation Should Be Maintained To Support Transactions (Continued)

- Invoices that were not paid in a timely manner.
 - We also noted nine (9) invoices that were not paid to vendors by either the invoice due date or within 30 days as required by state statutes.
- Metro Finance posts accounting entries from agency requests through email correspondence without receiving adequate supporting information to verify the validity of the requested transaction. We noted instances where authorizations were questionable because disagreements were discussed in the message, leaving Metro Finance to resolve the dispute.

Although these errors did not accumulate to material errors, there appears to be a lack of adequate review procedures over accounts payable processing, over year-end cutoff of accounts payable, and a lack of controls over the safeguarding of accounts payable documentation.

Failure to maintain and provide proper supporting documentation, as well as appropriate authorization for each transaction, calls into question the validity of information included in the accounting system and eventually reported in the financial statements. In addition, it makes audit procedures for verifying the validity and appropriateness of the government's expenditures difficult, at best.

The failure to adhere to proper year-end cutoffs could lead to material errors in expenditures reported on Metro's financial statements if undetected.

Finally, the failure to pay invoices in a timely manner could be detrimental to Metro's creditworthiness with its vendors and could limit its ability to do business.

Proper internal controls dictate that the agency should have a reasonable record retention policy and should take appropriate measures to ensure adherence to that policy. The retention of records policy should at least be sufficient to allow for audits by both state and federal officials.

GAAP requires a formal cut-off of expenditures for accurate financial reporting.

KRS 65.140 requires that local governments pay for purchases within 30 days. Interest penalties of 1% of any amount approved and unpaid shall be added to amount approved. Thus, failure to pay for purchases in a timely manner increases the cost of doing business.

Appropriate management authorization and proper supporting documentation for agency requests is required by good accounting procedures to ensure the accuracy and reliability of data for financial reporting purposes.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-7: Adequate Documentation Should Be Maintained To Support Transactions (Continued)

Recommendation:

We recommend Metro Finance consider the following procedures:

- Develop procedures for retaining adequate supporting documentation for all financial transactions. Properly communicate to all staff the agency's record retention policy and implement procedures to ensure that policy is followed. We would further recommend that all transactions include proper authorization prior to posting to the system.
- All employees processing accounts payable should be given instruction at year-end related to the proper cutoff of payable processing.
- Ensure that all vendor payments are made in a timely manner, and within the 30-day limit before interest expense charges may apply.

Management's Response and Corrective Action Plan:

Maintaining adequate documentation to support all transactions is a significant standard to Finance staff and is reinforced by the business practices and procedures in place. We are aware of instances of missing documentation with regard to the annual audit. During the audit, a portion of the staff of each division (accounting, payroll, accounts payable, grants, budget and cash management) was physically located separate from their co-workers until their respective work groups could be consolidated. The moving of staff along with files contributed to Finance staff having some difficulty locating all files when requested. When originals could not be located agencies were contacted and agency copies were obtained. Finance staff will develop formal documentation standards.

Recording expenditures in the appropriate fiscal year is a priority for Finance. We are aware of instances where errors were made and expenditures were recorded in the wrong fiscal year. A closing schedule and instructions were provided to all agencies and Finance staff explained how to record year-end activity. Additional training and documentation will be provided to agency business managers and Finance staff at fiscal year end to explain and emphasize recording year-end activity appropriately.

Payment of invoices in a timely manner is an important business practice to Metro Government. We are aware of instances of invoices not being paid timely and have created a government-wide work group to assist in developing time standards and responsibilities for payment of invoices for suppliers, agencies and Finance. With the implementation of the new financial system we have the tools available to develop a method to track and monitor the timeliness of payment.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-8: Policies And Procedures Should Be Developed For Participation In The Internal Investment Pool

Metro maintains an internal investment pool. They do not have a policy or a procedure to determine each fund's participation level within the pool. They do not have a policy or procedure for calculating the allocation of the pool amounts to the various participating funds.

For the year under audit, Metro determined a participation level based upon a percent of total cash and investments to total fund participation. Without changing these investment totals, the amount of investments is spread across all participating funds. Because of the accounting treatment, we could not test participation levels by fund.

Although we reviewed the accounting treatment for reasonableness, we are unable to determine with considerable certainty the appropriateness of the allocation to each fund. In order to determine the reasonableness of the allocation, we reconciled the Evare Investment Summary to the general ledger. Then we agreed the general ledger to the participation level spreadsheet provided by the Administrator of General Accounting. Finally, we verified this spreadsheet to the audit report.

Audits of State and Local Governments, Section 5.25, requires, "Each of the government's funds, activities, and component units should report its own cash and investments, including its equity position in internal investment pools." This requirement makes it clear that the reporting entity should have procedures in place to be able to identify the participation levels of all funds participating in the investment pool.

Failure to properly classify funds in an internal investment pool will result in misclassification of cash and investments reported on the financial statements, and could be misleading to readers of the financial statements. Although the government is able to report the total amount of cash and investments, there is uncertainty as to the percentage of cash and investments that belongs to each fund.

Recommendation:

We recommend the government create procedures for accounting for the proper treatment of cash and investments as it relates to the pooling of investments in an internal investment pool. We further recommend that policies include procedures for determining each fund's participation levels within the pool.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-8: Policies And Procedures Should Be Developed For Participation In The Internal Investment Pool (Continued)

Management's Response and Corrective Action Plan:

Finance has followed a historical practice for recording investments and determining each fund's level of participation in the investment pool. We will develop a formal policy and procedure to document our practice and ensure each fund's participation is properly recognized.

03-Metro-9: Louisville/Jefferson County Metro Government Should Strengthen Internal Controls Over Investments By Segregating Duties For The Acquisition And Disposition Of Investments

During our review of investments, we noted a lack of segregation of duties from the acquisition and disposition of investments to posting in the general ledger. The Administrator of Cash Management or the Assistant Administrator of Cash Management each have the ability to authorize the acquisition, purchase the investment, and dispose of investments. They also create the journal voucher to post the transactions to the general ledger and submit these to general accounting without supporting documentation. Upon receipt, general accounting uploads the journal voucher into the accounting system.

We tested 45 items and all purchase/sales documents for investment failed our testing attributes for approval of journal vouchers by appropriate management personnel. We were able to independently verify the appropriateness of the purchase or sale; however, we could not determine the validity of the support for the preparation of the journal voucher used to input the investment information into the accounting system.

Lack of sufficient internal controls over investments could lead to misappropriation of assets and incorrect reporting of investment information in the financial statements. Furthermore, failure to adequately separate accounting functions in this area could lead to fraudulent activity.

Good internal controls dictate that proper accounting and reporting procedures should be implemented over investments to ensure financial reporting is complete and accurate.

Recommendation:

We recommend strengthening internal controls over investments by:

- Segregating the duties of the acquisition and disposal of investments.
- Requiring approval of all investment transactions by appropriate management personnel.
- Requiring appropriate documentation supporting preparation of investment journal vouchers.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-9: Louisville/Jefferson County Metro Government Should Strengthen Internal Controls Over Investments By Segregating Duties For The Acquisition And Disposition Of Investments (Continued)

Management's Response and Corrective Action Plan:

Cash management has begun segregating the investment duties. The Administrator of Cash Management and the Senior Financial Service Specialist perform all transactions. Subsequently, an Accounts Specialist will review the transactions against preliminary broker documentation, notify the bank's safekeeping department with settlement information, enter the information into the journal vouchers and compare broker confirmation to the trade information.

It is critical that the bank is notified of trade details prior to investment settlement. Given the time sensitive nature of this process, if the Account Specialist is unavailable, the other management staff in the division who did not perform the trade will notify the bank of the settlement. There is considerable security with regard to the actual settlement of investment transactions. These transactions are structured in such a way as to only allow settlements to be transferred to or from specific Metro accounts.

With regard to journalizing entries, we are developing a process to automate the daily creation of a journal voucher for all bank activity, including wire transfers, deposits, investment transactions, etc. Due to the volume of documentation from transactions, the current business practice is to maintain the original supporting paperwork for these journal vouchers in the Cash Management area instead of in the General Accounting area. This documentation is readily available for review.

03-Metro-10: Segregation Of Duties Over Long-Term Debt Transactions Should Be Implemented

During the review of internal controls related to long-term debt obligations, we noted that debt service transactions related to the former Jefferson County bonds were accounted for by an employee of the Metro Treasury Department who managed those accounts before the merger of the governments. Based on discussions with Finance Department employees, there was no oversight by the Metro Finance Department of the debt service related to the debt of the former county. Specifically, we noted there were no measures taken to ensure proper segregation of duties since the Metro Treasury employee had the responsibility of initiating and authorizing debt service payments, recording the information in the county's FAS accounting system and also for presenting the information to Finance for proper disclosure in the financial statements.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-10: Segregation Of Duties Over Long-Term Debt Transactions Should Be Implemented (Continued)

Metro Finance Department's lack of management oversight and the failure to properly segregate the duties related to the long-term debt of the former Jefferson County left approximately \$175 million in general obligation bonds at risk for improper financial reporting or misappropriation of the related assets.

Proper internal control dictates that duties should be properly segregated between initiating, authorizing, and recording debt related transactions and payments. Also, financial management should have oversight in all material aspects of the government's finances to ensure proper fiscal management and accurate financial reporting.

Recommendation:

We recommend that the Metro Finance Department review procedures related to debt service of all long-term bonds outstanding, that the duties related to the debt service are properly segregated, and periodic oversight be provided by Metro's financial management.

Management's Response and Corrective Action Plan:

It should be noted that since 1997 the same person has handled the debt service activity for the former County in the same manner with no substantial changes. We are not aware of this being an issue during past audits performed by the APA, however when the City and County merged additional segregation of these duties was made. The new program structure of Metro Finance creates a manager of long-term debt activities. With the implementation of the LEAP accounting system and actual physical merging of staff into one location, the initiation, authorization and recording of long-term debt related transactions have been adequately segregated between Cash Management personnel and Accounting personnel. Wire transfers are approved by Accounting and are initiated and processed by appropriate Cash Management personnel.

03-Metro-11: Security Of The Use Of Network Passwords In The Cashier System Should Be Improved

During our review of Metro Treasury's cashier system, we noted network passwords are shared among Metro Treasury personnel. The cashier system does not track each individual performing each transaction, since multiple users share the same password.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-11: Security Of The Use Of Network Passwords In The Cashier System Should Be Improved (Continued)

Shared passwords and a cashier system that does not track via individual do not provide adequate internal control because it prevents tracing questionable transactions to specific user accounts.

To maintain accountability security policies and procedures should ensure that user account passwords are restricted to the actual user. The Department of Technology should establish controls in the cashier system that would enable the system to track the individual responsible for each transaction.

Recommendation:

We recommend security policies and procedures be implemented to allow users individual, confidential passwords. The Department of Technology should establish controls in the cashier system that would enable the system to track the individual responsible for each transaction.

Management's Response and Corrective Action Plan:

We are aware of the shortcomings of the cashier system and are actively pursuing a replacement system. The current cashiering system does not provide a way to track transactions when different individuals use the same cashier station. Access to the cashiering stations is limited to authorize staff of the cash management division. We are working to obtain a new cashier system and will ensure that it will fully address the tracking of activity. Until such time as a new system is implemented we will conduct a review of the current operating practices and will make modifications and place additional verification practices in place to provide adequate internal control.

03-Metro-12: Louisville/Jefferson County Metro Government Should Develop And Implement An Accounting Policy Requiring All Agencies To Use The Payroll System To Its Fullest Extent

Following the merger, the merged government continued to separately identify and account for payroll. The two (2) former governments continued to use separate payroll registers and general ledger systems. A third-party vendor, ADP, performed payroll processing for the former Jefferson County.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 57

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-12: Louisville/Jefferson County Metro Government Should Develop And Implement An Accounting Policy Requiring All Agencies To Use The Payroll System To Its Fullest Extent (Continued)

Responsibility for maintaining employee compensated absences is not centralized through the Metro Finance Payroll Department. Metro has not established parameters for vacation, sick leave, and compensatory time, for input by ADP payroll processing. Therefore, the balances earned and used by employees for vacation, sick leave, and compensatory time are not entered into and tracked by the payroll registers. Consequently, the former Jefferson County agencies, divisions, and/or departments are responsible for maintaining their employees' compensated absences balances. These balances are not reviewed at the central level Metro Finance Payroll.

During our testing of the former Jefferson County's estimate of employee compensated absences, we noted that support for the former Jefferson County Police Department's vacation, compensatory leave, and holiday hours were based upon balances as of June 30, 2002. The Police Department did not have compensated absences records available for the fiscal year ended June 30, 2003. In addition, the summary computation prepared by Metro Finance did not include all hours reported by Jefferson County Police Department as of June 30, 2002.

During our testing of the former City of Louisville, we noted that the portion of liability estimate related to "management" staff was incorrectly calculated due to error in input of standard reporting units (i.e., hourly pay rate). Calculation for the liability, computed through the PeopleSoft payroll system, is based upon employees' accrued vacation hours (not exceeding 40 days) multiplied by their respective hourly pay rate. Management staff, however, is paid a daily rate. The daily rate was not converted to the system-required hourly rate. The inclusion of the daily rate resulted in overstatement of the City's Compensated Absences balance by \$1,064,721. There is no review of the PeopleSoft Compensated Absences Report to verify the validity or reasonableness of the liability estimate. Therefore, the actual liability for this account cannot be substantiated from the central government level, nor can the reasonableness of the liability estimate be determined.

The lack of regular oversight by Metro Finance Payroll of employee-compensated absences constitutes a control weakness. Although Metro's policy allows for the accumulation of up to forty days of vacation for each qualified employee, the lack of regular review of employee compensated absences balances permits employee misuse and abuse of vacation accruals and usage. The integrity and reliability of the agency-submitted compensated absences balances are questionable, which may cause an understatement of the liability estimate.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 58

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-12: Louisville/Jefferson County Metro Government Should Develop And Implement An Accounting Policy Requiring All Agencies To Use The Payroll System To Its Fullest Extent (Continued)

Failure to use current financial data in the preparation of the compensated absences liability calculation may result in the understatement of the Metro's liability.

Failure to implement and review useful payroll system reports decreases the efficiency and reliability of the components comprising the liability estimate. Management's neglect of system resources and related supporting documentation calls into question the validity of information included in the accounting system and subsequently reported in the financial statements.

Sound internal control procedures and accounting practices, including the Code of Federal Regulations Title 29, Section 516, require that employee timekeeping and related payroll-related benefits, such as vacation leave, sick leave, etc. be maintained.

In addition, accounting balances and estimates should be reviewed for accuracy and reasonableness. Reconciliation(s) of detailed supporting accounting data to the general ledger should be performed in order to determine the accuracy and reasonableness of the financial information.

Recommendation:

We recommend Metro develop and implement an accounting policy requiring all agencies to use the payroll system for tracking all increases and decreases of compensated absence balances, as well as general time and attendance keeping functions. Individual employee compensated absence increases must be as authorized through the budgetary, departmental and divisional, and Human Resources approval process, or as approved by the various written union contracts.

In addition, it is recommended that Metro develop and implement an accounting policy requiring a reconciliation of compensated absence liability balance per the current fiscal year payroll system to the amount reported in the financial statements and related note disclosures. The reconciliation should be done in a timely manner whereby the results from performing the reconciliation can be addressed and corrections made as necessary.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 59

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-12: Louisville/Jefferson County Metro Government Should Develop And Implement An Accounting Policy Requiring All Agencies To Use The Payroll System To Its Fullest Extent (Continued)

Management's Response and Corrective Action Plan:

Metro Louisville has a policy requiring all Metro agencies to use the PeopleSoft payroll system for recording payroll and compensated absence benefits. Affiliated agencies such as the County Attorneys Office and the Commonwealth Attorneys Office have the authority to establish their own personnel policies and have chosen to maintain their compensated absence information independently. Some of the employees for these agencies are paid using the PeopleSoft payroll system. The affiliated agencies have provided a signed notification that they will maintain the balances separately and have agreed to provide the information to Metro Louisville at the fiscal year end and to make their records available for audit and inspection as requested.

The PeopleSoft payroll system was established with controls and rules to ensure payroll and compensated absences are paid, calculated and maintained in accordance with Metro policy and collective bargaining agreements. To report the compensated absence liability for the year ending June 30, 2003 Finance staff worked with limited tools and made significant efforts to obtain the required information. At the time Metro Louisville was operating on two separate payroll systems. The payroll issued using a third party provider did not capture leave balance information therefore departments maintained manual records of leave balances and performed a manual calculation of leave use for the year. The payroll issued through the internal system did capture leave information and a report was created to calculate the compensated absence information. The APA informed the payroll manager that there was an error in that report relating to the number of hours versus days reported for employees in the management classification. The problem has been corrected.

Between the time the audit began and the compensated absence computation was prepared, the payroll manager changed and the two payroll system were merged. These factors contributed to payroll management not detecting the error. Significant resources were committed to merging the City and County payroll processes and an extensive project plan was followed to ensure integrity of payroll data as the systems were merged as of the first payroll in January 2004. With the merger of the payroll systems manual calculations are no longer necessary with the exception of two affiliated agencies.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 60

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-13: Reconciliation Procedures Should Be Developed For Verifying Payroll Information To The General Ledger

After the merger of the former Jefferson County and the former City of Louisville, the merged government continued to identify and account for payroll separately. The two (2) former governments continued to use separate payroll registers and general ledger systems. A third-party vendor, ADP, for the former Jefferson County, performed payroll processing. In addition to payroll processing, ADP provided a monthly magnetic tape for loading into the general ledger system (FAS).

During our testing of this information, we determined that the former Jefferson County payroll registers were not reconciled to the corresponding general ledger accounts. Consequently, we were unable to verify payroll valuation for the reported payroll expense classifications.

Failure to reconcile accounting information to the general ledger prohibits the government's ability to verify the accuracy of the third party's payroll data. In addition, general ledger (FAS) system-generated errors may not be discovered and corrected.

Sound internal control procedures and accounting practices require that a reconciliation be performed to determine the accuracy and integrity of financial information.

Recommendation:

We recommend Metro develop and implement an accounting policy requiring a reconciliation of all payroll registers to the general ledger system. The reconciliation should be done in a timely manner; whereby, the results from performing the reconciliation can be addressed and corrections made as necessary.

Management's Response and Corrective Action Plan:

As a result of the extensive efforts of the payroll implementation team (Human Resources, Information Technology, and Finance staff), the third party payroll was merged into the internal PeopleSoft payroll system as of the first payroll of 2004. The external process has been eliminated, thereby removing this issue for all future years. The internal payroll process interfaces to the general ledger each week when payroll is completed. This process has always required the charges on the interface to be reconciled with the register each week.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-14: The Louisville/Jefferson County Metro Government Should Develop A Records Retention Policy To Maintain Adequate Documentation For Accounting Transactions

During our testing of Metro's payroll system, our request for supporting documentation for certain payroll records could not be fulfilled because the agency had either destroyed those records or the requested information was not made available to our staff. We requested time sheets supporting time worked, vacation leave, compensatory and sick leave accrued and used. Agency personnel indicated that some of the records requested for the year under audit had been destroyed because their policy for record retention is to maintain supporting records for one year and then to discard. Other records requested were either misplaced, misfiled, or archived and thus, also not made available for review.

We selected a sample of ninety (90) items to test; of those items tested, we could not test ten (10) because records had been either destroyed or not made available.

Failure to maintain adequate supporting documentation calls into question the validity of information included in the accounting system and eventually reported in the financial statements. Further, it does not allow for a permanent record to be maintained of leave balances for each employee.

Code of Federal Regulations Title 29, Part 516.6, states, "Each employer required to maintain records under this part shall preserve for a period of at least 2 years. (1) Basic employment and earnings records. From the date of last entry, all basic time and earning cards or sheets on which are entered the daily starting and stopping time of individual employees, or of separate work forces, or amounts of work accomplished by individual employees on a daily, weekly, or pay period basis when those amounts determine in whole or in part the pay period earnings or wages of those employees." In addition, Part 516.7, requires, "(a) Place of records. Each employer shall keep the records required by this part safe and accessible at the place or places of employment, or at one or more established central record-keeping offices where such records are customarily maintained. Where the records are maintained at a central record-keeping office, other than in the placed or places of employment, such records shall be made available within 72 hours following notice from the Administrator or a duly authorized and designated representative. (b) Inspection of records. All records shall be available for inspection and transcription by the Administrator or a duly authorized and designated representative." Thus, the agency should maintain adequate documentation of time and attendance records to support information included in the financial statements.

Sound internal control procedures and accounting practices require that records be maintained in order to properly classify and properly value amounts reported in the financial statements.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-14: The Louisville/Jefferson County Metro Government Should Develop A Records Retention Policy To Maintain Adequate Documentation For Accounting Transactions (Continued)

Recommendation:

We recommend Metro develop and implement a government-wide policy for records retention, not only for payroll records, but also for all accounting and reporting information. The policy should be sufficient to comply with audit requirements, which must be a minimum of 2 years under federal guidelines.

Management's Response and Corrective Action Plan:

Metro Louisville has records retention policies. Metro Louisville is using the policies previously approved by the City and County prior to merger. These policies incorporate appropriate schedules of the state records retention schedule and are sufficient to meet audit requirements. The Archives Division of the Department of Information Technology conducted training sessions on record retention policies in October 2003 and February 2004.

Employee timecard retention is an agency responsibility as the records are created and maintained at the agency level. Finance management will incorporate appropriate information to the Finance policy regarding records retention. Payroll management will notify agency payroll representatives regarding the retention requirements on timecards and will provide them with the appropriate sections of the records retention schedule to assist them in maintaining their payroll records for the appropriate period of time.

03-Metro-15: Louisville/Jefferson County Metro Government Should Develop And Implement An Accounting Policy Requiring A Reconciliation Of All Employee Payroll-Withholding Accounts To The General Ledger System

During our testing of payroll-withholding accounts for the former Jefferson County and City of Louisville governments, we noted that all employee payroll-withholding accounts are not reconciled to the accounting records and corresponding general ledger accounts.

Failure to reconcile accounting information to the general ledger inhibits Metro's ability to verify that employees' withholdings are remitted timely to the appropriate provider and properly credited to the employees' withholding accounts, as well as properly accounted for in the general ledger system. Furthermore, failure to reconcile the withholdings accounts to the general ledger system permits possible system-generated errors to go undetected.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 63

SECTION 2 – FINANCIAL STATEMENT FINDINGS

03-Metro-15: Louisville/Jefferson County Metro Government Should Develop And Implement An Accounting Policy Requiring A Reconciliation Of All Employee Payroll-Withholding Accounts To The General Ledger System (Continued)

Sound internal control procedures and accounting practices require that reconciliations be performed to determine the accuracy and integrity of financial information. The government has a fiduciary responsibility to remit timely to the retirement administrator funds it has withheld from employees' earnings.

Recommendation:

We recommend Metro develop and implement an accounting policy requiring a reconciliation of all payroll-withholding accounts to the general ledger system. The reconciliation should be prepared in a timely manner, whereby the results from performing the reconciliation can be addressed and corrections made as necessary.

Management's Response and Corrective Action Plan:

Internal controls related to the reconciliation of each payroll interface prior to posting the information to the ledger assist in maintaining the integrity of the accounts. Any discrepancies are corrected prior to posting; in addition payments from the accounts are reconciled with reports produced from the PeopleSoft system. Management will ensure that formal reconciliation is performed on a regular basis.

**LOUISVILLE/JEFFSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Page 64

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

***Reportable Conditions Relating to Internal Controls and/or Reportable
Instances of Noncompliance:***

**03-Metro-16: Controls Over Program Coordinators Within The Childhood Lead
Poisoning Prevention Program (CLPPP) Should Be Improved**

Federal Program: CFDA 93.197
Federal Agency: Center for Disease Control
Compliance Area: Allowable Costs
Amount of Questioned Costs: \$29,300

Grant payments were found to be fraudulent by Metro Internal Auditors. Acting on a complaint received from one of the program contractors, the Office of Internal Audit (OIA), in conjunction with the Metro Police Public Integrity Unit, initiated a special review of program controls and expenditures for fiscal years 2002 and 2003. OIA concluded that due to collusion between the program coordinator and contractors and due to management override of controls, payments totaling \$97,427 were questionable, with \$88,730 attributed to fiscal year 2003. OIA has reported that of the questionable amount, \$29,300 was cash misdirected to the program coordinator and the remainder is expenses for which contractors could not produce proper supporting documentation, expenses not in accordance with grant terms, or improperly coded expenses.

Program coordinators in the Metro Health Department are highly respected upper management. This position of trust allowed the program coordinator of CLPPP to interact directly with contractors, gain access to and alter invoices, and to approve contracts and payments. While this is not the only level of approval, a program coordinator's signature is perhaps the most significant.

The OIA's opinion states "... this fraudulent activity was not the result of a systematic breakdown of internal controls..." Total direct expenses for FY '03, according to OIA report are \$193,923. OIA examined 285 FY 03 expenditures. Total awards expended, is approximately \$95,000,000. The major program threshold is approximately \$2,800,000.

For the fiscal year ended June 30, 2003, OIA found \$88,730 to be questionable pending review by grantor. This was calculated based on OIA's review of all direct charges to the program

Grant funds are not being used to achieve the objectives of the program.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

03-Metro-16: Controls Over Program Coordinators Within The Childhood Lead Poisoning Prevention Program (CLPPP) Should Be Improved (Continued)

OIA found the questionable expenditures to be in violation of grant terms or to be improperly coded to the cost center where CLPPP expenses are accumulated in the FAS accounting system. Further, OMB Circular A-87 requires expenditures to be reasonable and adequately documented.

Recommendation:

While OIA's report indicates the fraud was not the result of a systematic breakdown of internal controls, their many recommendations are essentially control improvement suggestions. We recommend implementation of all OIA's recommendations.

Management's Response and Corrective Action Plan:

We are requesting in our July 1, 2004 through June 30, 2005 budget request, to establish a grants management team. That team will be composed of a Grants Manager (subtitle Compliance Officer), an Office Assistant, a Management Assistant, and a contracted grant writer. We believe that the grants management team, in addition to seeking new grants, will be able to monitor not only the CDC Lead grants, but all grant activities at the Health Department. Funding will come from the grants being monitored, not local tax revenues. The new budget will take effect July 1, 2004 and we believe our request for a grants management team will be approved and that we will have them up and running no later than August 15, 2004. One of their immediate tasks will be to implement the recommendations as proposed by internal audits.

03-Metro-17: Louisville/Jefferson County Metro Government Should Maintain Accounting Records To Enable Proper Accounting For Fixed Assets Purchased With Federal Funds

Federal Program: All Federal Programs
Federal Agency: Multiple
Compliance Area: Equipment and Real Property Management
Amount of Questioned Costs: None

Fixed asset records should identify equipment and real estate purchased via federal programs and should identify the program or federal agency providing the funds. While individual departments may be able to identify equipment and real estate purchased with

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

03-Metro-17: Louisville/Jefferson County Metro Government Should Maintain Accounting Records To Enable Proper Accounting For Fixed Assets Purchased With Federal Funds (Continued)

federal funds, no overall policy or procedures exist to identify those assets on an entity-wide basis.

Failure to compensate the awarding agency for federal portion of disposition proceeds could result in that agency denying future federal financial assistance.

OMB Circular A-102 Common Rule requires that equipment be used in the program that acquired it or, when appropriate, other federal programs. Equipment records shall be maintained; a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records; an appropriate control system shall be used to safeguard equipment; and equipment shall be adequately maintained. When equipment with a current per unit fair market value in excess of \$5,000 is no longer needed for a federal program, it may be retained or sold with a federal agency having a right to a proportionate amount of the current fair market value. The Common Rule further stipulates the non-federal entity may not dispose of or encumber the title to real property without the prior consent of the awarding agency. Also, if sold, non-federal entities are normally required to remit to the awarding agency the federal portion (based on the federal participation in the project) of net sales proceeds. If retained, the non-federal entity shall normally compensate the awarding agency for the federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title, in which case the non-federal entity is entitled to compensation for its percentage of the current fair market value.

Recommendation:

We recommend that fixed asset records be modified to include the amount and source of federal funds used to acquire each asset. We further recommend policies and procedures be in place entity-wide to ensure proper federal agency approval and compensation is achieved upon asset disposition.

Management's Response and Corrective Action Plan:

The fixed asset data record is being modified to accommodate recording the funding source. The asset policy does address reporting requirements for assets acquired with grant funds. The policy states that acquisitions made with grant funds should be recorded at the level specified by the funding source if it is more restrictive.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Reportable Conditions

(1) Audit findings that have been fully corrected:

No findings for this section.

(2) Audit findings not corrected or partially corrected:

FY 02	2002-EDP1	The Jefferson County Fiscal Court Finance And Administration Department Should Improve Program Modification Procedures	NA	0	No changes in related controls. See 03-Metro-6
FY 02	2002-EDP2	The Jefferson County Fiscal Court Finance And Administration Department Should Improve General And Application Access Security	NA	0	No changes in related controls. See 03-Metro-5

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

No findings for this section.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 02	2002-1	Subrecipient of Funds Should Be Monitored	14.218	0	Resolved during FY 03.
FY 02	2002-FAP-1	Street Sales Drug Buy And Informant Payments Were Improper	16.579	0	Newly instituted control procedures are being followed. Resolved during FY 03.
FY 02	2002-FAP-2	Healthy Start Reports Were Not Submitted Timely	93.926	0	Resolved during FY 03.
FY 02	2002-3	Reports Should Be Submitted Timely	16.590 16.592 16.710	0	Due to improvements, this finding has been downgraded to other matter and is no longer required to be reported under <i>Government Auditing Standards</i> .
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 02	2002-2	Property Records Should Be Maintained	16.592 16.710	\$ 199,950	Capital asset records continue to be inaccurate. See 03-Metro-17
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
No findings for this section.					
<i>(4) Audit finding is no longer valid or does not warrant further action:</i>					
No findings for this section.					

APPENDIX

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX 1
FOR THE YEAR ENDED JUNE 30, 2003

List of Metro Organizations audited by other CPA firms that were included in the Metro Single Audit:

Metro Organization	Contact
Capital Projects Corporation	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Community Economic Development Corporation	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Economic Development Corporation	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Firefighters' Pension Fund*	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Louisville Science Center, Inc.	Amick & Company 410 West Chestnut Street, Suite 237 Louisville, KY 40202-2342
Louisville Water Company	Crowe, Chizek and Company LLP 101 South 5th East Street, Suite 2430 Louisville, KY 40202-3115
Mass Transit	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Metropolitan Sewer District (MSD)	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX 1
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)

List of Metro Organizations (Continued)

Metro Organization	Contact
Parking Authority of River City, Inc (PARC)	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Policemen's Pension Fund*	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Revenue Commission	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Riverport Authority	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Transit Authority of River City (TARC)	McCauley Nicolas & Company, LLC 702 North Shore Drive, Suite 500 Jeffersonville, IN 47130-3104

*Limited procedures were performed. No opinion was given.

